

Final Audit Follow-Up

As of September 30, 2010



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Risk Management Self-Insurance Programs

(Report #1010, Issued February 11, 2010)

Report #1106

January 21, 2011

Summary

This is our first and final follow-up audit conducted after the issuance of the original audit report #1010, "Risk Management Self-Insurance Programs," issued in February 2010. In our original report, we reviewed the controls over the Risk Management processes overseeing the City's self-insurance programs and the data recorded in RiskMaster (the system used to account for self-insurance claims transactions), and tested the reliability of the information recorded in the system. Our audit showed that overall, there were adequate controls established over the claims disbursements and collections of the self-insurance programs to protect and safeguard City assets.

Our original report also showed that while controls were established over claims disbursements and collections related to the self-insurance programs to protect and safeguard City assets, we did note some areas where controls could be strengthened and operations improved. We provided recommendations and management developed nine action plan steps to address those areas.

During the follow-up period April 1 through September 30, 2010, seven of the nine action plan steps were completed, and two steps are in process but have not yet been completed.

Steps completed were related to:

- Established enhanced controls over the receipt of all checks to provide for timely processing and deposit of all collections.

- Revised users' access in RiskMaster to strengthen internal controls and mitigated access risks.
- Assigned separate user ID and access to the backup system administrator and monitor the backup system administrator's activities.
- Risk Management began providing quarterly information to the Department of Management and Administration (DMA) Accounting Services so subrogations and recoveries can be timely distributed to each applicable department.
- DMA began crediting applicable departments for subrogations and recoveries on a quarterly basis.
- Analyzed and corrected overpayments to the Electric Department and corresponding underpayments resulting from the separate policy established for the Electric Department.
- Considered and evaluated the benefits of an active Insurance Advisory Board and took the necessary actions to assure compliance with City Commission Policy 216.

The two steps that were in process and not completed relate to the:

- Development and implementation of procedures to perform periodic reconciliations of the data in the involved systems (i.e., CORE, Financials, RiskMaster) in order to identify and correct any discrepancies in a timely manner.

- Consideration and establishment of quantifiable performance measures to assist management in evaluating the efficiency and effectiveness of the risk management function.

The target completion date for these two outstanding action plan steps has been amended to March 31, 2011. Responsibility for completing the final two steps is being turned over to management for their resolution.

We appreciate the full cooperation provided during this audit follow up from Risk Management, the Electric Utility, and DMA Accounting Services and Budget Divisions staff.

Scope, Objectives, and Methodology

We conducted the original audit and this subsequent follow-up audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Original Report #1010

The scope of the audit of Risk Management Claims Programs included a review of the processes established by the City Treasurer-Clerk and Risk Management to administer and oversee the City's self-insurance programs for general and vehicle liability. Additionally, the audit focused on a review of the administration and reliability of data recorded in the RiskMaster system, the system used to account for self-insured claims transactions.

The specific objectives of this audit were to obtain an understanding of the risk management

program's goals, objectives, processes, and activities sufficient to:

- Evaluate selected internal controls over claims, cash disbursements, and collections related to the City's self-insurance programs.
- Evaluate selected controls over claims processing and reporting in the RiskMaster system and determine reliability of data recorded in the system through reconciliation of the payments and collections recorded in the system to data reported in two of the City's major financial reporting systems.
- Identify potential cost efficiencies and service improvements in the risk management process.

Report #1106

This is our first and final follow-up on action plan steps identified in audit report #1010. The purpose of this follow-up is to report on the progress and status in completing the action plan steps due for completion as of September 30, 2010. To obtain information, we reviewed relevant documentation, including policies and procedures and reports; and interviewed key staff.

Previous Conditions and Current Status

The Risk Management Division, within the Treasurer-Clerk's Office, is responsible for the administration of the City's self-insured programs, including general, vehicle accident, Workers' Compensation, and employment practice liability. The division is also responsible for the procurement and administration of commercially purchased insurance for all other applicable City exposures.

The Risk Management Division manages the following funds related to the Risk Management Claims Program:

- The Risk Management Fund - exists for the sole purpose of providing resources needed to pay all anticipated claims and judgments against the City. It is funded on an annual basis sufficient to meet anticipated and projected claims payments, claims reserves, and any deficits for prior periods. The balance of this fund for fiscal years 2009 through 2011 is shown in Table 1 below:

Table 1
Risk Management Fund Balance for Fiscal Years 2009 - 2011

Fiscal Year	Balance (Actual, estimated and proposed)
2009 (actual)	\$9,332,192
2010 (estimated)	\$6,506,682
2011 (proposed)	\$9,342,818

Source: 2011 City Budget

- Special Insurance Reserve Fund - established and funded to meet unanticipated losses from catastrophic events, higher than expected claims experienced in a given year, or to meet other claims/resource needs in excess of the Risk Management Fund. The level of funding for this fund is set at the higher of 150% of the average for the past three years claims costs, or \$3,000,000. It was adequately funded during the audit period.

Risk Management is also responsible for the administration and oversight of the claims administration process for the City’s self-funded exposures. The self insurance policy (City Commission Policy 214) applies to all claims (i.e., requests for indemnification of loss by a third-party for damages alleged to have been caused by the City or one of its agents, or, the term “claim” may also be used to refer to the estimated value or amount of a loss) against the City, its Commissioners, officials, employees, or appointed board or committee members which may arise while acting lawfully within the scope of their duties and employment.

In the administration of the self-insurance programs, Risk Management processes transactions (i.e., both payments of claims against the City and collection of funds due the City when the City is not at fault in accidents) related to the settlement of claims. During our audit period, October 1, 2005, through March 31, 2009, Risk Management processed transactions on a total of 5,031 open claims. Payments were made and collections received on general liability, vehicle accident, and Workers’ Compensation claims during the audit period as noted below in Table 2.

Table 2
Self-Insurance Claims
October 1, 2005, through March 31, 2009

Claim Types	Number of Claims Open during the Audit Period	Payments on Claims Open during the Audit Period	Collections on Claims Open during the Audit Period
General Claims	2,592	\$2,499,517	\$810,660
Vehicle Accident Claims	1,306	\$1,953,647	\$281,452
Workers’ Compensation Claims	1,133	\$3,185,625	\$51,722
TOTAL	5,031	\$7,638,789	\$1,143,834

Source: Audit Report #1010

Original audit conclusions

In our audit of the processes in place to ensure accurate and reliable accounting for the City’s risk management function we determined that:

- Transactions were generally input timely and accurately, and
- Data maintained through the self-insurance management system, RiskMaster, was reliable and reconcilable to two of the City’s major financial reporting systems,

the Financials system and the CORE cashiering system.

We did note several areas where controls could be strengthened and processes adopted to provide additional assurance of the reliability of the RiskMaster system data and effectiveness and efficiency of the risk management function. We provided recommendations to address these areas and management created an action plan to implement the recommendations.

Table 3 below provides the steps from management’s action plan to implement the recommendations and the current status of each. All nine action plan steps from the original audit report were due to be completed by September 30, 2010. Of the nine steps, seven have been completed and two steps are in process. The target completion date for the two remaining steps has been amended to March 31, 2011. Responsibility for completing the final two steps is being turned over to management for their resolution.

**Table 3
Action Plan Steps from Report #1010
Due as of September 30, 2010, and Current Status**

Action Plan Steps Due As of September 30, 2010	Current Status
<i>To improve the internal controls over Risk Management claims, cash disbursements, and collections.</i>	
<ul style="list-style-type: none"> Risk Manager and staff develop and implement procedures to perform periodic reconciliations of the data in the involved systems (i.e., CORE, Financials, RiskMaster) in order to identify and correct any discrepancies in a timely manner. 	<ul style="list-style-type: none"> ◆ In Process. Risk Management is working with Accounting Services, ISS, and Treasurer-Clerk staff to use the newly acquired “dashboard” software that will regularly pull data from various systems and display the information in designed reports for management to review. The anticipated completion date has been amended to March 31, 2011. Responsibility for completing this step is being turned over to management for their resolution.
<ul style="list-style-type: none"> Risk Manager and staff review and establish controls over the receipt of all checks to provide for timely processing and deposit of all collections. 	<ul style="list-style-type: none"> ✓ Completed. New procedures have been implemented to record the receipt of all checks received. Risk Management staff maintains a separate spreadsheet for checks returned to payers, including date received and returned, payer, check #, amount, claim #, claimant name, and the reason why. <p>Audit Comment: Our audit recommendation was to establish controls over all checks to provide for timely processing and deposits. Management has determined to return checks when the amounts are incorrect and has accepted the associated risks.</p>

<i>Improve controls in the RiskMaster system and related to data reliability.</i>	
<ul style="list-style-type: none"> Risk Manager and staff re-evaluate the risks associated with RiskMaster user access and determine if there are adequate compensating controls to mitigate the identified risks. 	<p>✓ Completed. Changes were made to some of the users' access capabilities.</p> <p>Audit Comment: We still recommend that management implement a process to periodically review users' access capabilities to ensure that only authorized users have access to specific functions and data.</p>
<ul style="list-style-type: none"> Risk Manager assign the administrative specialist I a separate user ID and password with only the additional access capabilities required to perform necessary backup functions, along with a report or log that can be reviewed by management to see which activities are being performed by someone other than the system administrator. 	<p>✓ Completed. Access for the administrative specialist I was changed to reflect his job responsibilities, and he was provided a separate user ID to perform backup system administrative procedures when needed.</p>
<ul style="list-style-type: none"> Risk Management to work with DMA Accounting Services Manager to determine what information to provide so that Accounting Services can distribute the subrogation collections to each applicable department on a monthly basis. 	<p>✓ Completed. Risk Management began sending quarterly reports of vehicle accident and general liability subrogations and recoveries to Accounting Services. Risk Management will also send the quarterly reports of 1) subrogations and recoveries to the Electric Utility for their record keeping; and 2) write off claims of uncollected subrogations and recoveries to Accounting Services.</p>
<ul style="list-style-type: none"> DMA to credit applicable departments or funds for subrogation collections on a monthly basis. 	<p>✓ Completed. Accounting Services is using the quarterly reports submitted by Risk Management and has chosen to make quarterly journal entries transferring those collections to the various funds based on Risk Management's reports.</p>
<ul style="list-style-type: none"> Treasurer-Clerk and DMA to prepare an analysis and corrective actions to correct overpayments to the Electric Department and corresponding underpayments resulting from the separate policy established for the Electric Department. 	<p>✓ Completed. Overpayments of \$355,133 for Fiscal Years 2007-2009 were transferred from the Electric Fund's Other Miscellaneous Revenue account to the Risk Management Other Miscellaneous Revenue account as of September 30, 2010.</p>

<i>Cost efficiencies and service improvements in the risk management process</i>	
<ul style="list-style-type: none"> • Consider and evaluate the benefits of an active Insurance Advisory Board and take the necessary actions to assure compliance with City Commission Policy 216. 	<ul style="list-style-type: none"> ✓ Completed. Risk Management and the Treasurer-Clerk evaluated the benefits of the Insurance Advisory Board and decided to eliminate it. That committee is no longer one of the City’s Citizen Advisory Boards.
<ul style="list-style-type: none"> • Consider the benefits of establishing quantifiable performance measures to assist management in evaluating the efficiency and effectiveness of the risk management function. 	<ul style="list-style-type: none"> ◆ In process. The Risk Management manager and supervisor are analyzing the data available in the RiskMaster system to assist them in measuring their office’s performance. The target completion date has been extended to March 31, 2011. Responsibility for completing this step is being turned over to management for their resolution.

Table Legend:

- Issue in the original audit
- ✓ Issue Addressed and Resolved
- ◆ Issue not completed but in process

Conclusion

Risk Management and Accounting Services have made significant progress toward addressing the nine action plan steps from the original audit report. Accordingly, this is the first and final follow-up audit conducted after the issuance of the original audit report #1010, Risk Management Self-Insurance Programs.

As described in detail in Table 3, seven of the nine action plan steps due this period have been completed, and progress has been made on the remaining two outstanding steps. The targeted completion date for the two remaining steps has been amended to March 31, 2011. Responsibility for completing the final two steps is being turned over to management for their resolution.

We appreciate the full cooperation provided during this audit follow up from staff in the Treasurer-Clerk's Risk Management Division, the Electric Utility, and DMA's Accounting Services and Budget Divisions staff.

Appointed Official's Response

City Manager:

I am pleased to see that staff has completed the majority of the action plan steps identified in the original audit plan and that only two items remain to be completed. Staff will be working to complete these two remaining items with the goal of completing these by March of 2011. I would like to thank the City Auditor and staff from the Treasurer-Clerk's Office and DMA for their work on ensuring that all action plan items are adequately addressed.

City Treasurer-Clerk:

We are very pleased that the follow-up review found that seven of the nine action plan steps from the original audit report have been completed. The final two recommended action plans will be completed by March 2011. We believe that the implementation of the recommended action plans will increase the efficiency and effectiveness of the risk management process.

Copies of this audit follow-up #1106 or audit report #1010 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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